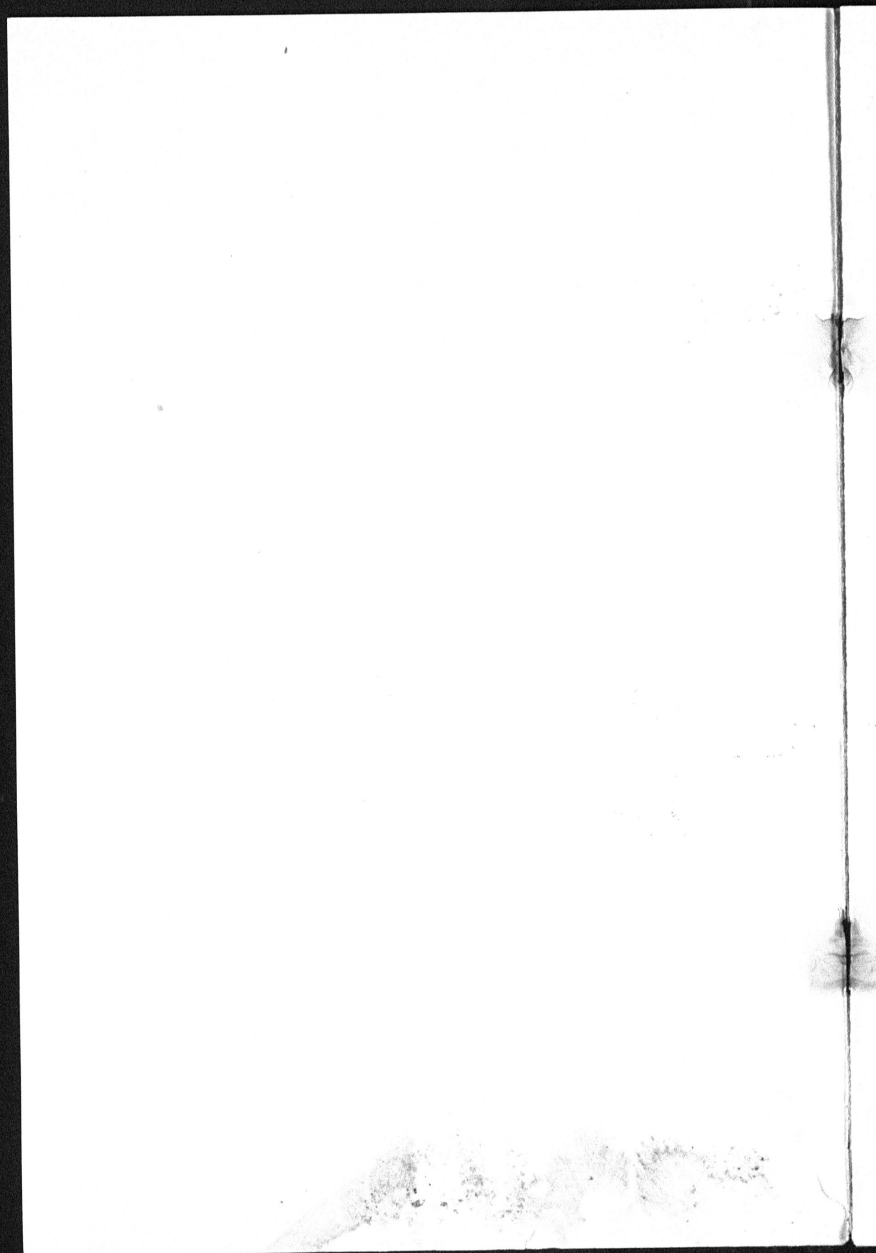


THE BUSINESS DEPRESSION AND
ITS EFFECT ON THE RAILWAYS



Address of
L. F. LOREE
President, The Delaware and Hudson Railroad
Corporation
at the
Annual Meeting of
The Delaware and Hudson Railroad
Corporation
Freight and Ticket Agents' Association
Hotel Champlain, Bluff Point, N. Y.
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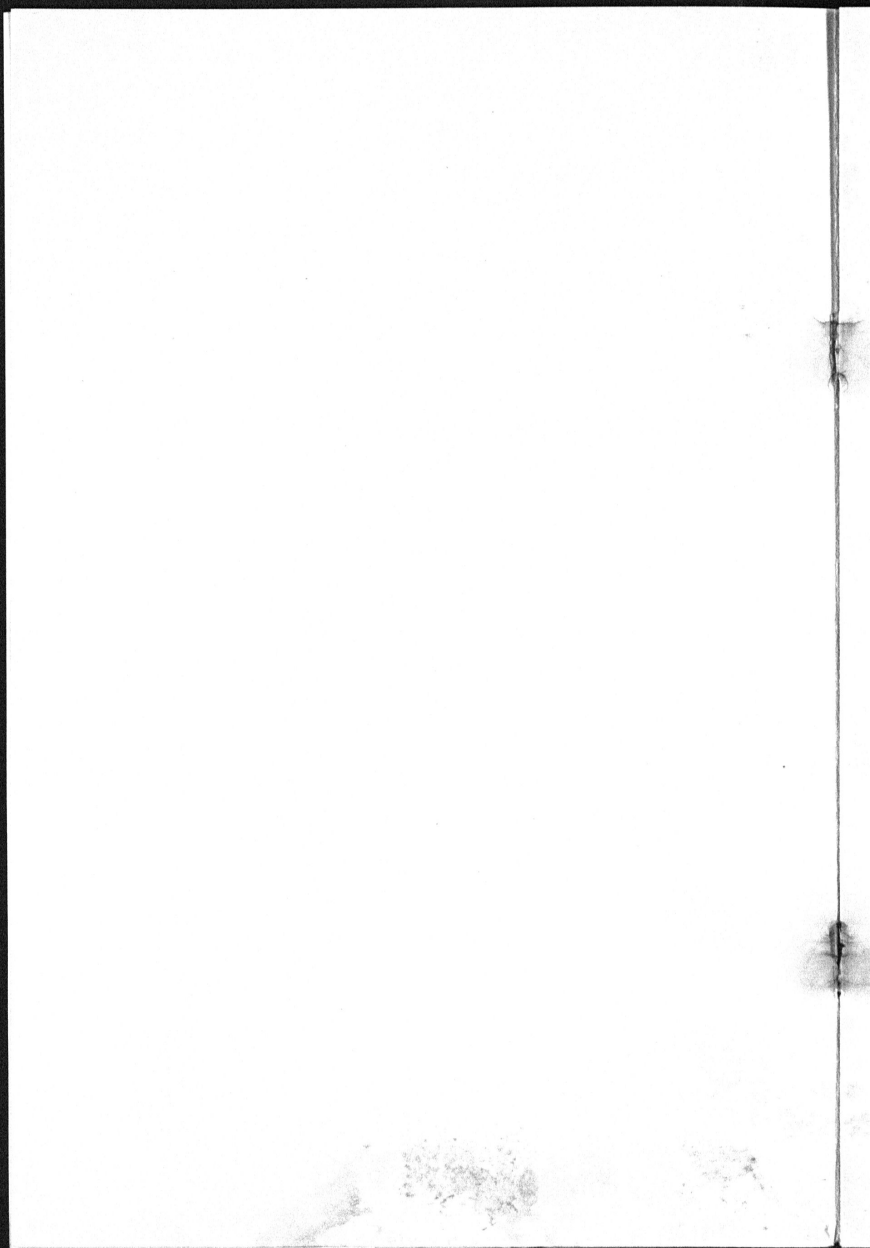
MR. L. F. LOREE

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THE BUSINESS DEPRESSION AND ITS EFFECT ON THE RAILWAYS

The outstanding and most important thing in our lives today, the one most talked about, the one constantly in our minds, is that we are passing through a period of major industrial depression. These periods of depression generally last four or five years and are preceded by a panic resulting from a crisis which, so far as I am able to judge, is brought about through maladjustments in industrial life due to changes in methods of production, mineral extraction, transportation, manufacture and merchandising. These changes, the product of inventions and of improvement in skill of management, are sharply stimulated by a war and by the introduction of a new industry. We have had the greatest war of modern times and not one but several new industries—the development and adaptation of electrical transmission of power, the wireless transmission and radio, the automobile and aeroplane, developments in metal alloys and in commercial chemistry. Never, perhaps, has any similar period been affected by so many or by such powerful stimuli. Distressing as our present condition may be, yet when compared with the results of particular crises in the natural world, such as epidemics of the “flu,” cholera, yellow fever, bubonic plague, the migrations of the Colorado potato bug, Mexican boll weevil, corn-borer, San Jose scale, the Japanese beetle, the Chestnut blight, and catastrophes, such as the earthquake in Nicaragua and the floods in China, the influence of even a major industrial depression on human life and industry seems fleeting and unimportant. Recovery is delayed; the intensity of the disorder augmented; the activities of the politicians, who seek to influence the situation by legislation or by bureaucratic control, increase; and the false prophets, such as the

Socialists, who seek to substitute for the present industrial organization untried and speculative schemes, fill the air with clamors.

Karl Marx, who never had a responsible position or personal acquaintance with industry, was a diligent student of economic theories, particularly its literature, worked for many years in the British Museum, and eventually evolved his Socialistic theory of the regulation, production and accumulation of capital. He made four major prophecies concerning the actual future of capitalism some 85 years ago, none of which have as yet worked out as he predicted. There is no evidence, including the gigantic experiment in Russia, of the success of any of his suggestions, or of those of his followers. Indeed, so disappointing has been the Socialistic experience that in the article on Socialism in the *Encyclopedia Britannica* of December, 1922, its author said the definition given by Bonar in his article in the same publication in 1911 could no longer be supported. Socialism may perhaps be described; it cannot be defined. What needs to be done is to think less on the problems of distribution and more on the problems of production, and to learn to sharply distinguish the contributions made in production by management, by those who furnish the capital, and by the workmen.

We in the United States occupy a very astonishing autonomy, producing within our own borders at least nine-tenths of everything we need. We can grow here all the foodstuffs necessary for existence; the coffees, tea, fruits, nuts and most other things imported are in the nature of luxuries. In the basic materials, manganese ore, tin, rubber, nickel and platinum pretty much cover the list. With no more than six per cent of the population of the world and 5.7 per cent of its land area, we produce 72 per cent of the oil, 37 per cent of the coal, 42 per cent of the iron ore, 45 per cent of the finished steel, 51 per cent of the copper, 54 per cent of the cotton, 64 per cent of the corn, and 20 per cent of the wheat. Much criticism is made of our possession of nearly five billions of gold coin—the medium of exchange—out of a total world possession of eleven billions. But is not that holding amply justified by the relative size of our industry, especially when consideration is given to the extent of the territory over which its activities extend?

How is it that this relation can be possible, and why is it that our people can put more into their work and can get so much more out of their lives than other peoples in the world? Two

years ago I prepared for the "Bulletin" a review of Professor Ellsworth Huntington's book on "The Human Habitat," in which he called attention to the great influence that environment had on the life of mankind. His first great division was that of sea, seven-tenths, and land, three-tenths, and the second that of climate, which, when coupled with soil and mineral resources, determine largely what people may make of their lives. As to climate, we seem to be living in the one most favorable to human culture and human progress. As to soil, no race has ever been known to advance far in civilization without agriculture, which assures the inhabitants of a permanent supply of nutritious food. The hunter is unable to preserve his food and must spend his time almost daily seeking it that he and his family may continue to live. Soil we have in abundance and of the finest quality—a soil that permits of a variety of agriculture of the very highest type. Beneath the land surface are great mineral resources.

Huntington says that there appears to be about 240,000,000 people living in a primitive condition—Bushmen, Hottentots, the Zulus and the Kafirs, in South Africa; Arabs, Turkomans and Kirghiz in Asia; Eskimos in the Arctic regions; the Negritos of the East Indies and the Indians of the Amazon Basin. With them luxuries are out of the question; the possession of the mere necessities of life is always a matter of hazard.

Something like 250,000,000 people practice what Huntington calls hoe and tree culture. They drop seed into holes punched with a stick, but do not employ animals to plow or cultivate the soil. They subsist largely upon native fruits. The degree of their culture varies with the handicaps of the environment, the damp heat, disease, the leaching of the soil, the growth of unnutritious weeds, the insects, birds and beasts which devour the crops or otherwise destroy them. The work is very hard, the return meagre, and life has but a narrow margin.

The rice regions, requiring constant irrigation, support perhaps 700,000,000 people. There are also those who cultivate cereals in the Western Hemisphere, millet in Africa, and corn and wheat in South America.

About half the land area of the world has no more inhabitants taken together than those who live in the two cities of New York and London. Nearly two-thirds of the people of the earth are crowded upon seven per cent of the land surface. The countries where dense population is associated with climatic storms and a

very high degree of human energy lie in western and central Europe, including most of Great Britain, and in the middle latitudes of North America. The total area where a dense population seems to arise by reason of the cyclonic type of climate and natural resources scarcely amounts to more than 1,650,000 square miles, or less than the one-hundredth part of the surface of the globe, with a population of approximately 370,000,000 people, based largely on the cultivation of wheat, including the cereals associated with that grain, and constituting the wheat type of agriculture. Thus the present people of North America and northwestern Europe represent the end result of an age-long process of migration and natural selection. They possess three-fourths of the world's wealth, eleven-twelfths of its steamships, manufacture nine-tenths of its goods, govern two-thirds of the world's habitable territory, and have a controlling voice in most of the remainder. Of these the citizenship of the United States is almost one-third and the English speaking people are somewhat more than one-half.

At the base of civilization is the industry of agriculture. This industry presents two quite different aspects; (a) a relatively limited number of agriculturists pursue the business as a commercial enterprise and lose or profit under conditions such as affect other commercial ventures; (b) the great bulk of the agriculturists engage in the industry as a way of life. They have, as a rule, a comfortable living, a healthy outdoor occupation, a sheltered existence, and, to many, it possesses great charm and much resource.

The great war took from the farms many of the younger men. The eight-hour day and the five and one-half day week, expanded still further by the strong contrast between the spread in the hours of labor in industry and the hours of labor in agriculture, and the great advance in wages in industry since 1913, have drawn away from the farms a very substantial number of men, and these men, crowding the industrial ranks, now swell the numbers of the unemployed.

It seems to be thought by many that the World War, depleting the ranks of male labor, drew into industry vast numbers of women who have permanently remained. It would appear, on the contrary, that while the total number usefully employed increased from 1910 to 1930 to 28 per cent, the increase in the number of women so employed was no more than 33 per cent.

There have been heavy inroads upon real usable capital through

the methods of taxation, particularly the growing tendency to rely upon the purely socialistic system of taxing not property as property but the individual in accordance with his ability to pay. There is a further exhaustion through the enormous and wasteful expenditures of government by all sorts of methods of employing labor, colored always with the hope that the votes of such labor can be tied up with the party in control.

There are said to be at present 6,500,000 unemployed. These figures are always used upon the assumption that all those out of work are desirable workmen. We should regard the matter much more intelligently if we made a division into three groups—

1—Those sick or disabled; unable to work for other reasons; not looking for work; voluntarily idle without pay. This group was estimated to contain, on April 1, 1930, 618,832, or 16%, of those then not at work.

2—Those who are of bad habits, shiftless, lazy, of low mentality, etc., who may in times of great industrial activity be taken on by employers, though they may represent a loss, and whose employment is largely the cause of "labor turnover." This group, if taken to be approximately 5 per cent of those employed in rush times, would muster some 3,500,000.

3—The really valuable members, for whom all our sympathy and concern is excited, and who may properly be regarded as the victims of the depression—or about 2,500,000 people.

As we look back, we now see that in 1929 the business and financial organization of this country experienced a "crisis." Business had become geared to a condition of steady expansion and the stock market reflected this in indefinite advances in security prices. About the middle of the year industrial expansion had been checked and by Labor Day the stock market could be pushed no higher. The business and financial machine thus was stalled.

There followed a very severe stock market "panic" in October and November. The business recession also gained momentum, but it was not until the middle of 1930, when bank failures became numerous, that real "panic" developed in business, as it was realized that the temporary recovery in the Spring of that year was a "false start."

Now we are in a condition of profound "depression"—a condition which has prevailed for over a year. The crisis has come and gone. The period of panic has, almost if not quite, been

passed through. It remains to gather the shattered forces of business, reorganize and discipline them, for the march out of the valley of depression.

All this is nothing new. We have passed through other "new eras," as in 1907, 1893, and 1873, which are quite comparable with those which we are now observing. Some of you will remember the panic of 1907, which was quite the same in the violence of the decline and the sharp readjustments in financial conditions, to that experienced in the current period. Some will also remember the panic of 1893, which was attended by a condition of world-wide depression that may fairly be compared with the present. Our business was then extremely depressed from the summer of 1893 through the summer of 1894, and while there was a temporary recovery to something approaching normal in the latter part of 1895, a relapse occurred in 1896, so that complete recovery did not come until 1898. Thus there was a period of nearly five years during which business was extremely unsettled and on the whole depressed.

Probably the years preceding 1929 saw a more excessive speculative activity than any preceding period in our history, and it may be said that at present there is a more universal condition of depression existing concurrently throughout the world than we have ever seen before. This, however, is but a matter of degree. We have been through similar experiences and have come out of them as we will in the present case.

It is discouraging, however, to find that we have profited so little by these past experiences. In most of our major panics there have been the same efforts to talk ourselves out of a bad situation. The "sunshine" clubs and "business-as-usual" movements of the past, in spite of their futility, have been all too much in evidence during the past two years. And the same may be said of the attempts to remedy the excesses of inflation by resorting to more inflation and "credit injections."

If we have now, as is to be hoped, exhausted all these psychological nostrums and settled down to the realities of our situation, it is time to take stock of that situation for the purpose of ascertaining sound measures for relief and for preventing similar occurrences in the future. Like the scientist who must base his findings upon an accurate study of the facts, we should carefully note the business phenomena which have attended the development of this depression. We should make studies of the causes which led up

to the crisis, in order that we may prevent, or modify, such a development in the future. We should learn and record for the benefit of the next generation the futility of farm boards, untimely credit injections, artificially maintained wage rates, optimistic propaganda, and the like. We should carefully note what measures and adjustments prove to be really helpful.

There would appear to be nothing fundamentally new in the causes which led up to the present depression. Doubtless, conditions were made worse by the World War. It caused certain shortages to develop everywhere. In Europe, the closing down of industries and the destruction of capital and man-power created a great temporary market for our products. The war also brought its usual aftermath of currency inflation which helped to stimulate an abnormal boom. But we saw something of these same things after our Civil War, followed by the panic of 1873.

I would say that this depression developed out of maladjustments in financial and industrial activities. As is always the case, bank credit was highly inflated, as seen in the great expansion of loans on securities and real estate, and in the abnormally rapid turnover of bank deposits.

This was accompanied, as usual, by unduly high commodity prices, though in the present instance the height of commodity prices was mostly relative and to be seen chiefly in comparison with operating expenses.

The prices of real estate and securities were affected by an almost unparalleled expansion, and, as usual, speculation in these kinds of property went to great lengths.

All this was encouraged and extended by a great development of installment buying; that is, people bought things "on time," promising to pay in the future what they could not afford to pay in the present. Or, as Will Rogers says: "Influenced by advertising and supersalesmanship, they bought what they didn't want with money they didn't have."

As a result of this inflation and discounting of the future, production was over-expanded and the means of production in the shape of plant capacity were unduly enlarged. Accordingly, stocks of commodities accumulated, not, perhaps, so much as heretofore, on the shelves, but unpaid for in the hands of consumers, until they became so large that it was utterly out of the question to move more to market or to liquidate them at current prices.

Then the time necessarily came when prices began to decline—

first, commodity prices, then prices of real estate, and finally stock prices. Commitments made on the basis of past prices then represented a source of loss. Credit became strained and loans became frozen.

All this may be summed up in one word—"maladjustments." Accordingly, the depression in which we now find ourselves is the period necessary for correcting these maladjustments. We are atoning for past economic sins, paying up past debts, liquidating frozen loans—in short, making all of the readjustments required by an accumulation of maladjustments.

We have had overproduction, and now we are readjusting production to consumption. Prices of many commodities, such as copper, cotton, wheat, and wool, were inflated; now they are being deflated. First, raw materials were too high in price in comparison with the price of finished products, and a good many farm products were too high compared with manufactured products. Now most raw materials are unduly low in comparison with finished products, and farm products have fallen much below average in comparison with most manufactured goods. During the last twenty-two months wholesale prices have declined approximately 28 per cent and the purchasing power of the wholesale dollar has increased almost 40 per cent. In general, with some exceptions, retail prices have failed to come down in proportion to wholesale prices, and the cost of living is still high in comparison with the prices which the producer gets for his products at wholesale. This is the customary lag due to the effort of the retailer to limit his losses.

These price maladjustments must be corrected before we can expect a resumption of normal business. Business consists in buying and selling, and as long as markets are not in normal adjustment and we have in prospect declining prices for finished products and commodities sold at retail, business will remain backward.

The farmer is at the base of our industrial civilization; our economic well-being depends primarily upon the wealth that is produced from the land. That the condition of the farmer is so depressed is, therefore, of fundamental importance. The production of farm products was over-stimulated by war conditions. This condition was made worse by artificial price maintenance and by the extension of too much credit to farmers. (Even today, I am told that in some sections loans backed by govern-

ment credit are made to the extent of \$12 an acre when sound and conservative private lenders will advance no more than \$6.) Naturally, farmers being only human, joined in the general tendency to live too fast, and participated in the orgy of luxury buying and land speculation. The result was that they spent more money than they made, and now find themselves deeply in debt. Finally, through the unwise policies of the Farm Board, the farmers felt encouraged to plant too large an acreage and the prices of their wheat and cotton were maintained at too high a level to allow exports.

Today, therefore, we find ourselves confronted with huge accumulations of wheat, cotton, wool, and tobacco; very low farm prices; greatly reduced farm purchasing power; declining farm land prices; and a deplorable condition of farm indebtedness. In addition, the farmer (like the railways) is weighed down by a crushing load of taxation. The railroads with an increase of 148 per cent in their investment in road and equipment from 1900 to 1929, have had their taxes increased in that period by 806 per cent—I have no exact figures for the farms, but I fear they are being plundered in the same way.

The reduction in commodity prices, aided by the adoption of economical methods and by the reduction of overhead expenses of all kinds, will finally reduce operating expenses to a level which will enable business to return a profit even at the low prices for its products which are being established. The national wealth of the United States in 1929 was estimated at \$361,800,000,000—John Stuart Mill contended that except for a few monumental structures property was kept in existence only by perpetual renewal and had an average life of not more than 20 years. A short period of depression effects serious inroads upon this wealth and renewals on the old scale must soon again go on. Already in July the production of boots and shoes exceeded the production in July last year, and, industry by industry, recoveries will be made as heretofore on normal lines.

I do not see any reason for discouragement in this analysis of the situation. With intelligent readjustments carried out by individual business men, the final correction of these maladjustments is only a question of time. The very similarity between the existing depression and several of those which we have experienced in the past marks the path of the ultimate recovery.

It would seem that economic maladjustments similar to those

that arose in 1929 are the almost inevitable results of industrial progress. Is it not true that business recessions always come after business booms? And are not business booms the result of business expansion going too fast and too far? Business depressions seem like the "growing pains" of business expansion. It is partly the development of new products and new methods which lead to so-called "new eras." The trouble lies not in the expansion or the progress, but in the fact that the progress leads to over-optimism and an undue rapidity of expansion. Then these things lead to maladjustments for the correction of which there must be a period of depression.

Even such drastic processes of correction as we are now undergoing have their constructive aspects. Business has always emerged from a period of severe depression much more sound and efficient than it was before. For one thing, a business depression is a great weeding-out process, in the course of which the incompetent and the inefficient are eliminated. As much as by any one thing organized business is made possible by the bankruptcy courts. One great weakness of our civilization lies in its lack of a weeding process. Our civilization encourages economic weeds. To get good results from the kitchen garden one must continually pull weeds. To get good results in the nation's industrial organization is not something similar required? While, therefore, we may deplore the suffering involved, and certainly should take every reasonable step to reduce that suffering through efforts to find a place for every man (or to provide for the absolutely incompetent by charity), we should recognize the benefits that are accruing to us through the increased average efficiency of both business men and workmen. On all sides today we see incompetent management failing—on farms and in factories and stores. We find the least efficient laborers forced to seek new jobs or temporarily out of work. We find economies of all sorts being adopted. Truly, necessity is the mother of invention.

We are getting back to economic fundamentals according to which men are rewarded in proportion to the values which they produce. There is an increasing recognition of the fact that normally many men can do no more than earn a living. "To each," as the Scripture long ago said, there will be given "according to his several ability."

In this connection, attention should be directed to the importance of farming as a mode of living. Undoubtedly many farms

cannot be operated at a profit, but there are few upon which the farmer cannot at least make a living. There is beginning a wide-spread movement back to the farms, and this is in many respects a wholesome movement. Steel workers in Birmingham mills, for one example, have gone back to work with their families on neighboring cotton farms. Here they can at least live a healthy life and be free from want. This movement helps to solve the problem of unemployment.

When our bodies are weakened by excesses we become more subject to the attacks of parasites and degenerative bacteria. In the same way the body politic seems in times of depression to become infested with social parasites and other harmful organisms. Today we are threatened with socialism in various forms, the tendency being to ask the government to do things which individuals can best do, and to take away the property of those who are well-to-do for the purpose of giving it to those who are not. Similar to the socialists are the politicians who take up radicalism in various forms as a means of getting votes from discontented persons. A particular type of labor leader also takes on a new lease of life and thrives on the agitation and mob action which are most likely to appeal to the unemployed or those who are adversely affected by readjustments.

Along with these we find numerous well-meaning panacea chasers who think that business can be stimulated or revived by some schemes known to themselves, without the necessity of correcting the fundamental maladjustments which afflict us. They propose government bond purchases, enormous programs of construction of public works, and other schemes looking toward inflation or of exploiting the public treasury.

At such times, too, the shyster lawyer who thrives on misunderstandings and discontent is in his element.

Therefore, as an incident to business recovery we may well keep in mind the importance of building up resistances or preparing vaccines for combating these enemies of a sound and healthy business condition.

Especially should we be on our guard against the insidious workings of inflation and the dole system. Even among reputable economists there remains a considerable tendency to harbor the notion that a depression may be relieved through inflation. They argue that by giving the people more money to spend we can increase their purchasing power and thus bring prosperity.

Closely related to this notion is the dole system. This begins with proposals to spend hundreds of millions of dollars for public works solely for the purpose of giving employment. It includes the idea that paying high wages will make business good, which if pushed to its logical conclusion would lead us actually to raise wages regardless of the productivity of labor or the earnings of business. Then there is the proposal for a vast system of unemployment insurance to be supported by the government.

But all these schemes are in the last analysis only an attempt to beat the game. They do not alter the fundamental conditions. They all involve increasing the burden of taxes and they all mean taking money from one class to give it to another. We cannot increase the income of one class without decreasing the income of another class, unless the former increases its productivity in proportion to what it receives. We must remember that the government is made up of all of its citizens and that someone must pay the taxes from which government funds are derived.

The sound methods of procedure which may be adopted for the purpose of facilitating business recovery would seem to be as follows:

1—Encourage the prompt and thorough correction of the existing maladjustments, particularly those which still exist among commodity prices.

2—Actively promote economy so that expenses may be reduced to a minimum and a profitable condition be restored; even if necessary so low as pre-war price levels.

3—Adjust consumption to income or earnings. I fear that many of us are still maintaining an inflated standard of living with something of the old tendency to over-spend. In comparison with 1929, for the time being the living habits of the average American must be deflated. This does not mean any loss of *normal* progress, nor a return to the standards of living of our fathers. It simply means that we were going ahead too fast during the boom period and will have to give up some of the luxuries which, under abnormal inflated conditions, we were beginning to enjoy, but for which we were not able to pay. When this depression is over, we will have made progress, but not such rapid progress as some had dreamed.

4—Get rid of much hampering legislation. Our statute books are cluttered up with thousands of laws which are unsound and wasteful. Irving Babbitt says that 62,014 new laws were passed

by the state legislatures between 1909 and 1913. Certainly that rate of increase has not since been diminished. Many of these have been deliberately framed to sand-bag, ham-string and hog-tie management. Further, they put an unnecessary burden of taxes upon us, and unduly restrict business.

It goes without saying that unavoidable economic suffering must be relieved, and we must all be prepared to contribute within our means to a large amount of charitable work which will have to be carried on during the next few months. This, however, should for the most part be regarded as a local and temporary expedient. The fundamental thing is to promote efficiency, encourage the readjustment in commodity prices, and restore the balance between consumption and production. Through such processes we have always recovered from depressions in the past. It would seem as though they alone give promise for the future.

John Maynard Keynes, one of the more influential of British economists, condenses what I have been trying to point out by saying: "The prevailing world depression, the enormous anomaly of unemployment in a world full of wants, the disastrous mistakes we have made, blind us to what is going on under the surface—to the true interpretation of things. We are suffering not from the rheumatics of old age, but from the growing pains of over-rapid changes, from the painfulness of readjustment between one period and another."

To say all these things and to say nothing of wages, is to produce the play of Hamlet with Hamlet left out.

Our civilization is based upon an industrial development organized by management, or as the economists call it, the "entrepreneur" or enterpriser, who associates with himself the group of workmen whom he employs, and the capital or wealth accumulated by self-denial and thrift, and put to the use of the enterprise by its owners.

General business activity, giving due weight to finance, distribution and production, has, according to Joseph Stagg Lawrence, fallen from a height of 125, reached during 1929, to 70 as of July of this year. That is, the business activity was about 80% greater two years ago than it is now. Capital has suffered in the principal sum of its wealth. On October 1, 1929, there were listed on the New York Stock Exchange 1,279 issues aggregating 1,048,359,263 shares with a total market value of \$87,073,630,423. On July 1, 1931, there were 1,296 issues with 1,303,489,082

shares with a market value of \$47,417,147,581. The price of the average share which had been \$83.06 was now \$36.38. That is, this body of wealth, used as capital, was worth 128% more than it is now, while in some cases still greater, or indeed total losses, are indicated by receiverships already established or threatening. Further, incomes from capital investment have been greatly reduced, through the reduction or passing of dividends. I have been told by some that their capital income was 70% greater in 1929 than it is now.

The compensation taken by the workman for his contributing effort in industry is in the form of wages. While these wages may be received in currency in an envelope, it is, as an ultimate fact, the consumer who pays them, and these payments, in the last analysis, are the exchange of one kind of service for another.

One of the things that is intensifying and prolonging the depression is the belief that these exchanges cannot be made on a satisfactory basis until the wage scales are adjusted in harmony with the other eliminations of maladjustments. Sometimes this idea is expressed by saying that we are experiencing a "buyers' strike."

Let me state the case as the economists put it: These wage scales are held to be so high that industry cannot afford to pay them, with the result that unemployment is increased. More than that, they are so high that the economic position of capital and the enterpriser is being jeopardized. Wages can be paid only out of the value produced in industry, of which labor is one of the three associates. If the attempt is made to pay higher wages than are warranted by such values, the income, that is necessary to encourage the co-operation of capital and to induce business enterprise to function, is unduly reduced. Then industry as a whole suffers, including the workmen themselves.

The elimination of maladjustments has resulted in a continuous fall in the cost of living, based upon prices and amount consumed of food, housing, clothing, fuel and light, and of sundries, so that now it is not greater than in 1914 by more than 30 to 38 per cent. On the other hand, the average weekly earnings in the New York State factories in June, 1931, were more than double what they were in June, 1914. In the railroad service, the wages, as we know, are in many cases three times as much as in 1914. These workmen then, if on full time, are actually obtaining an advantage by the depression. These high wage rates are the more harmful in that they are being paid to what is, after all, but a relatively

small part of the total workmen of the country. Farm wages, for example, are but 23 per cent higher than their average in the years 1910-1914.

The maladjustments in prices, including the artificially high wage rate, have the effect of keeping up the prices of industrial output, including goods sold to the farmer.

These maladjustments in prices, including the wage of the workman, it is held, must be corrected if we are to lay the foundation for sound and sustained recovery in business. Production has, in most cases, probably been sufficiently curtailed. If this is the case, it remains only to keep it curtailed long enough to allow the necessary reduction in the stocks of commodities where these are excessive, including the unliquidated goods sold on the installment plan. A reduction in commodity prices will, of course, in such cases, also help to create a market for excess supplies.

Assuming that these several contentions of the economists are true—and I think that in the main they are—what courses are open to a management engaged in the production of a commodity—transportation if you will—and confronted by a falling price, a shrinking margin and a reduced output?

1st. It may cut out every item of waste that it can discover ;

2nd. It may so improve its methods as to dispense with some men and thus increase the output per man, or

3rd. It may reduce the labor component by asking the men to accept a lower wage.

One or more, or all, of these things must be done if work is to be preserved and an increase of unemployment avoided.

Certainly the case for the railroads is quite as bad as it has been in any of the former depressions. In the first seven months of this year, 54 per cent of the Class 1 roads failed fully to earn their fixed charges and rentals. Only eight of them have their common stocks quoted above par on the New York Exchange.

We cannot escape the difficulties ; the problem is our problem, yours and mine. I have gone over it at great length because I want you to see it as I see it.

Let us face the future with courage and with confidence in each other.

After all, we shall win through. Let us not be too much discouraged ; let us remember that, as the old proverb goes, "the soup is never eaten as hot as it is cooked."